



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

FRENCH FINANCES AND ECONOMIC RESOURCES

The attitude of France in the matter of armaments has brought sharply to the fore the question of her financial condition. With the rest of the world trying to relieve itself of the burden of armament how is France able and why is she apparently willing to maintain or even increase her outlay for military purposes?

That French finances are not all that could be desired has been known in a general way for some time. Mr. Frank Vanderlip recently returning from France compares the French Minister of Finance to a juggler trying to keep three balls in the air at the same time. But when one attempts to learn just what the condition of French finances is he finds a baffling situation, partly because of the stupendous amounts involved and the difficulties of conversion but more because of the methods or lack of methods pursued in handling the budgetary system itself. For years after a given fiscal period the accounts are still open and credits are still voted. On the other hand, the budget is ordinarily not passed until long after the fiscal year has begun. This is not true, however, of the present budget, 1922, which was passed for the first time in fourteen years promptly at the beginning of the fiscal period. The auditing is years in arrears.

I. THE FRENCH BUDGETARY SYSTEM

The term "budget" as used by the French now includes: (1) the ordinary budget, in which expenditures are balanced by revenues; (2) the extraordinary budget, representing certain normal expenditures in excess of revenues, and abnormal expenditures arising out of the war and not assessable to Germany; (3) the special budget, or expenditures which it is hoped to recover from Germany under the terms of the Versailles treaty. There are also "accounts outside of the budget" which include special treasury services, miscellaneous expenditures, contingent liabilities and suspense accounts, as well as unpaid interest on foreign loans.

There has been lacking any clear line of demarcation between these budgets, and accounts have been shifted from one to another as expediency directed. Supplementary, extraordinary, and additional credits are voted to former budgets—seventy-five such having

already been voted on the 1919 budget, which, following precedent, will not be closed for years to come. Many items in the budgets are marked "memoire," which means that funds are not provided for their payment at the time and are not, therefore, represented in the published totals, but are to be filled out later with supplementary credits.

M. Doumer, in introducing the 1922 budget in January, 1921, proposed a change in the law by which one budget would hold for two successive years, thus enabling the state to catch up with the schedule. It remains to be seen whether this suggestion will be carried out.

One of the penalties incurred by a delay in the enactment of the finance bill lies in the postponement of tax collections. Another difficulty arises when new legislation passed in the early months of a fiscal year calls for additional expenditures and thus imposes upon the budget expenses which are unanticipated. In 1920 over one billion francs were thus added, while the budget was in suspense.

M. Doumer, as Reporter-General, declared on December 30, 1920:¹ "The state has no bookkeeping. The only account is one for sums received." The Minister referred to one member of the government who declared that he was not greatly disturbed over reductions of credits and at the same time declared that he would spend the money in spite of the reductions. In presenting his 1922 budget, M. Doumer used these words:² "The simplest and most evident principles of financial law are constantly ignored in such a calm and heedless fashion that it is difficult to say whether it is based on ignorance of the law or defiance of it. No one seems to have any comprehension of the legal implications in a credit that has been voted."

The press is ordinarily divided into those that support and those that oppose the government. The latter, as a matter of routine, denounce the governmental fiscal policies, but these criticisms seem to be taken as a matter of course and do not produce any changes in policy.

Back of the whole French financial situation is the fact that the public was led, at the beginning of the war, to believe that the war would be of short duration, that it could be financed by short-term loans, and that Germany could be made to pay the bill. While the first two of these assumptions were given up early, the delusion that

¹ *Journal Official*, p. 2046.

² *Bulletin de Statistique*, July, 1921.

Germany can be made to pay almost in a lump sum a large part of the costs assessed against her is still tenaciously held, both in and out of government circles.

Because of the system of budgetary accounting, the actual receipts from French taxation are hard to state. The items are classified in different ways. The customs returns include the sums which the government pays itself as an importer and new tax legislation is sometimes made retroactive, at times affecting the current budget and at other times not going into force until the following year. The following statement of revenues and expenditures for recent years was prepared by the Bankers Statistics Corporation.

REVENUES AND EXPENDITURES

(In million francs)

	1913	1919	1920
Revenues			
Direct taxes.....	1,356	3,172	8,864
Indirect taxes.....	3,309	6,413	5,542
Monopolies.....	407	585	1,064
Domains, etc.....	144	1,642	6,300
Total.....	5,216	11,812	21,770
Expenditures			
Direct as percentage of total taxes	29.1	33.1	61.5
All tax as percentage of expenditures.....	92.1	19.4	30.1
Total receipts as percentage expenditure.....	102.8	23.9	45.4

Revenues for 1921*:

	FRANCS
Direct†.....	1,056,657,600
Registration.....	2,705,416,000
Stamp.....	563,326,000
Stock Exchange.....	19,425,000
Securities.....	926,425,000
De Luxe.....	13,114,000

* *Official Bulletin de Statistique*, December, 1921.

	FRANCS
† Demand notes issued for income tax (including arrears for 1916-1921).....	2,792,257,500
3 Alsace-Lorraine Departments.....	28,160,400
Portion of foregoing sum paid in	1,150,356,500

Revenues for 1921—Continued.

	FRANCS
Turnover (sales)	1,897,457,000
Customs	1,192,966,000
Indirect	2,404,415,000
Coffee, vanilla	177,134,000
Salt	32,376,000
Sugar	352,045,000
Petrol, benzol	179,802,000
Monopolies	2,769,806,500
Domains, <i>recettes d'ordre</i>	924,847,500
Liquidation of stocks (treated as revenue, not capital item)	1,501,582,500

Expenditures for 1921:

Ordinary budget	25,320,645,479
Of which, for War and Navy Ministries	5,449,646,537
Of which for Pensions, Bonuses, etc.	135,455,680
Extraordinary budget	3,855,042,175
Of which, for War and Navy Ministries	1,856,645,443
Of which, for Pensions, bonuses, etc.	146,897,719
Special budget	15,368,415,207
Of which, for War and Navy Ministries	54,010,000
Of which, for Pensions, etc.	1,548,636,830
Special treasury accounts, outside budget	595,528,128
In addition, there are ten or eleven "annex budgets."	
Total of the four budgets (not the full sum expended) . . .	45,139,630,989
Total of the War, Navy, Pensions, etc. (incomplete) . . .	9,191,292,209

It is apparent from the foregoing incomplete table that only a low percentage of war costs has been met by emergency taxation.

Tables prepared by the Bankers Economic Service show that the United States during the war period collected in taxes 22.3 per cent of its total war expenditures, while France collected only 1 per cent. In the second fiscal year after the Armistice, the United States collected 95.9 per cent, France 21.9 per cent.

During the second fiscal year after the Armistice, the United States collected from taxes \$45.99 per capita while France collected \$65.76 per capita. It will thus be seen that the French national taxation per capita was substantially heavier than that in the United States. Moreover, since the per capita income in the United States was \$620 as compared with \$265 in France, the federal tax burden is roughly three times as heavy as in this country. Accordingly, the

common American contention that French taxes are a joke—that all the French need to do to straighten out fiscal affairs is resolutely to increase the tax levies—is quite without foundation. French expenditures in 1919 were \$222.52 per capita, of which \$199.99 may be classified as war expenditures. It would appear therefore that the way out for France lies in a rigid curtailment of expenditures for military purposes.

While the French taxes are now relatively heavy the following criticism¹ of French financial methods made by Senator Gaston Jeze upon the floor of the French senate is not without significance:

While England and the United States, in proportion as their expenses increased, made a greater and yet greater appeal to a policy of financial effort, those who directed the policy of our own country, helped by the selfish connivance of the Bank of France, were following a policy of living from hand to mouth. They flooded the country with bank bills and bonds; they increased the circulation of paper; they depreciated our money and our credit; they were merciful to the taxpayers; they launched their loans regularly; they allowed the period of the war, during which people will make sacrifices, to slip by. The result is that we have now an enormous floating debt to consolidate and must make demands on the available liquid assets of the country just at the moment when they are needed for the development of our economic life.

II. THE BUDGET FOR 1922

Summarizing the budget estimates for 1922, we find (in million francs):

Ordinary expenditure.....	23,180
Extraordinary expenditure.....	1,752
(Of this amount the debt charge is 12,653)	
<hr/>	<hr/>
Total.....	24,932
Ordinary receipts.....	19,401
Exceptional.....	3,054
<hr/>	<hr/>
Total.....	22,451

ANTICIPATED DEFICIT

Anticipated deficit.....	2,481
Anticipated deficit in 1921 returns.....	1,000
Total deficit.....	3,481

¹ *Les Finances de Guerre*, II, 71.

The principal items in the current budget are, in round numbers, the following (in million francs):

Expenditure:

Service of public debt (internal and private part of the foreign debt)	12,653
Military establishment.....	3,709
Naval establishment (exclusive of building program).....	844
Other executive departments.....	5,244
Administration of monopolies and tax collecting.....	2,475

Receipts:

Taxes and receipts*	15,663
War profits tax	3,050
Monopolies and state industries.....	2,911
Liquidation of war stocks.....	500
Estimated recoverable budget (special) 1922.....	10,600,000,000
To which, add financing through Credit National.....	8,000,000,000
Group loans	4,000,000,000

* About 3 per cent of the income tax revenue was spent in 1921, in collection of the tax.

This special budget has not yet been finally passed on but is in Chamber of Deputies. Foregoing sum approved by Senate and subject to further amendment.

For the current year the French expenditure for national defense will amount to 4,553,000,000 francs—a considerable increase over the preliminary estimates in the previous budget. Judging by past experience this minimum in the French estimate will be largely exceeded in actual expenditures.

The new fiscal legislation, covering the year 1922, is said to mark a step in the direction of budget unification and the abolition of the extraordinary budget. The regular, or original, budget is expected ultimately to include all expenses not covered by the special budget, which is confined to pensions and reconstruction advances recoverable from Germany.

On the face of things it would appear that France has now nearly succeeded in balancing her accounts. In fact, there has been much publicity to this effect; and it has been accepted by leading financial journals in the United States as true. We shall find, however, that this balancing is more apparent than real. Many items are not included in the foregoing figures and the reorganization of the method of budgetary statement is apparently designed in part to put the best possible face on the situation.

In submitting his proposed consolidation of the budget for 1922 the Finance Minister in July, 1921, stated¹ that the deficit may be met "without resort to borrowing," in the following ways: (1) strict economy; (2) punishment of evaders of taxation; (3) placing important accounts outside of the budget to finance themselves; (4) doubling the turnover taxes.

Now practicing strict economy is a stock expression, both in France and in other governmental centers. Punishing tax evaders is, moreover, notoriously not the practice in France at the present time. The increase in the turnover taxes will probably result in relatively small additional revenue. They have already proved a great disappointment. The striking fact is that taxation has not been raised to the point of meeting fairly the expenditures, but that an easy policy of borrowing and of obtaining advances from the Bank of France has all along been followed. In spite of the fact that the northern provinces of France formerly paid one-fifth of the total taxation, the agricultural wine tax was dropped in 1920 on account of the pressure of the agricultural bloc. *L'œuvre* says that a farmer pays 90 francs on an income of 30,000 francs, while the business man pays over 2,000 francs tax on the same amount. Agricultural interests, representing 60 per cent of the population and one-half of the total wealth, pay only 10 per cent of the taxes.

Now as to the important accounts that have been placed outside of the budget to finance themselves. The most important is the special recoverable budget, which last year amounted to more than fifteen billion francs. While the special expenditures are theoretically recoverable from Germany, it is known that only a very small percentage will be received. The next most important eliminated account is that of the railroads, which last year showed a deficit of one and a half billion francs. There is no real evidence that there will not be a large deficit again this year; and in the end this will be a charge against the government. In addition the current budget makes no provision for repaying large advances to the Bank of France, for the payment of maturing obligations in cash, for possible defaults in the obligations of the Credit National,² for interest on the foreign loans, nor yet for the eleven supplementary estimates of the previous year or for the "special treasury accounts outside of the budget."

¹ *Bulletin de Statistique*, July, 1921, pp. 1-5.

² The Credit National was formed to finance reparations, but it has made no report and the extent of its liabilities has not been made known.

In view of all of these omissions and contingencies, and in view of the extent to which government expenditures have exceeded preliminary estimates while government revenues have fallen below the estimates during the last three years, no one need be surprised if the eventual deficit this year proves almost as great as that of last year. The actual amount of the deficit in the past three years is revealed in a following section, where it will be shown how far from fulfilment have been the budgetary estimates and predictions.

III. FRENCH BORROWINGS

Receipts from borrowings have been from the following sources: (1) advances from the Bank of France; (2) short-term loans; and (3) long-term loans—both at home and abroad.

The long-term loans have produced the following amounts:

Per Cent	Year	Face Value (Million Francs)	Amt. Paid in (Million Francs)	Per Cent Cash	Per Cent Nat'l Defense Bills	Per Cent Other Obligations
5.....	1915	15,205	13,308	47	17	36
5.....	1916	11,514	10,082	54	37	9
4.....	1917	14,882	10,209	50	45	5
4.....	1918	13,304	22,163	32	59	9
5.....	1920	16,150	16,150	40	54	6
6.....	1920	27,000	27,000	34	20	46
		116,055	98,912	42.8		

It will be noted from the above that only 42.8 per cent of the face value of the consolidated loans was in the form of cash, the rest being in the form of National Defense Bills and other existing government obligations. In the 1920, 6 per cent loan, Russian bonds were accepted *at par* for a considerable proportion of each subscription.¹

The Bank of France has raised the legal limit of its advances from time to time until at one time they exceeded 30 billion francs; they now stand at 24,600,000,000 francs. The note issues of the bank increased correspondingly until a maximum of over 38 billion francs was reached. Because of the business depression the note issues have been somewhat reduced during the past year.

¹ *L'Humanité* says: "The cost incidental to these issues, not including the 6 per cent of 1920, will reach the enormous sum of 251,322,000 francs. All six loans will have cost more than 500 million francs."

Foreign Loans Outstanding (according to M. Doumer):

	Million Francs
Bills issued in England.....	31
Bills issued in the U.S.....	128
Bills issued to the British Treasury.....	12,327
Bills issued to the Bank of England.....	1,639
Bills issued to Japan.....	78
Short-term credits in	
Spain.....	593
Sweden.....	70
Norway.....	83
Argentina.....	145
Switzerland.....	140
Holland.....	115
England.....	321
Uruguay.....	80
Anglo-French Loan, United States.....	1,295
Loan of the City of Paris.....	259
Loans of Lyons, Marseilles, and Bordeaux.....	233
Advances of the American Treasury.....	14,428
Loans issued in Japan.....	258
Bonds given to United States for war stocks.....	<u>2,072</u>
Total (conversions at par).....	34,296

The French debt to the United States now stands at nearly \$3,000,000,000 in principal, with several hundred millions more for deferred interest. In addition large sums are due for military and naval supplies taken over at the end of the war.

IV. THE INCREASE OF FRENCH INDEBTEDNESS

The actual extent of the French budgetary deficits during and since the war may be seen from the following table:¹

	Total Debt in Francs
1914, July 31.....	34,188,000,000
1918, December 31.....	151,122,000,000
1919, December 31.....	240,242,000,000
1920, September 30.....	285,836,000,000
1921, February 28.....	302,743,000,000
1921, September 30.....	320,000,000,000
1921, December 31.....	328,000,000,000

¹ The first five figures are taken from Bass and Moulton, *America and the Balance Sheet of Europe*, p. 42. The last two are the estimates of M. Cheron, of the Financial Committee of the French Senate.

According to the estimates¹ of M. Cheron the French debt has increased 146 billion francs during the past three years, of which 69 billion have been expended for reconstruction and pensions. This amount is chargeable to Germany under the terms of the treaty. Forty-nine billion is due to the depreciation in the franc. The recent rise, if sustained, would somewhat reduce this amount. M. Cheron further estimates the culminating point in the French indebtedness at 425 billion francs on January 1, 1930, with an annual interest charge of 21 billions. Since the present revenue estimates are only 23 billions and the actual sums received several billions less than that, it is clear that the French fiscal outlook is anything but promising. If deflation is continued the fall in monetary incomes will of course tend to reduce the volume of taxes that can be raised. Whether M. Cheron's estimates for 1930 prove correct will, moreover, depend in considerable measure upon the ultimate receipt from reparations.

The foregoing estimates of mounting French indebtedness are supported by computations made by the American consul in Paris and by those of M. Doumer.² They indicate that the actual deficit in the third year after the war was over 30 billion francs, including the expenditures for reconstruction and pensions. Exclusive of the theoretical recoverable expenditures the deficit was in excess of 15 billions.

An estimate of the public debt on November 15, 1921, gave the following results:

Internal debt	241,219,064,000	Paper Francs
Of which the floating debt is	93,960,388,000	Paper Francs
External debt	35,403,669,000	Gold Francs
Of which the commercial debt is	5,913,963,000	Gold Francs
Political (to governments) is	29,489,706,000	Gold Francs

The external debt of France amounted to 85,556,000,000 francs, at the actual rate of exchange on November 15. Of this amount about six-sevenths represents what is designated in the budget as a "political debt" owing largely to the United States and Great Britain. No provision has been made for the payment of interest or for amortization of the principal.

In his public announcements regarding the debt, the French Minister of Finance adds together the foregoing internal and external

¹ *Journal Official*, May 19, 1921, Annex 359.

² Frank A. Vanderlip says that these figures of total indebtedness do not include all the items (see *What Next in Europe?*).

debt items. This means the addition of unequals, as the gold and paper sums are not comparable. To convert to either gold or silver exclusively, it would be necessary to know the rate of exchange at the time when each part of the debt was contracted.

A recent estimate (*Financial News*) places the national wealth of France at 811,000,000,000 francs, the present annual income from which is estimated to be from 125,000,000,000 to 150,000,000,000 francs. While before the war taxation amounted to about one-seventh of the national income as compared with about one-fifth at present, the relation between the national wealth and the public debt has undergone a great change. Before the war the debt was about one-tenth of the total wealth but according to this estimate the ratio at present is approximately one-third.

V. PEOPLE AND RESOURCES OF FRANCE

Will France pay her debts? Will she redeem the vast amounts of outstanding paper currency? Will she bring the value of the franc back to something like its pre-war value? Will France ever again become a great creditor nation? The capacity of France to set her financial house in order, to increase her taxes and reduce her expenditures depends in part upon the honesty and virility of her people, in part upon her economic resources, and in part upon the economic condition of the rest of Europe with which she is so intimately interrelated.

The French population, including Alsace-Lorraine, is now given as 39,194,550, or 183 per square mile. It is highly homogeneous, conservative (over 50 per cent on the land), and uncommonly thrifty and frugal. The low birth-rate, the excessive individualism, and the strong hold which the past has upon the people are possible off-setting characteristics. Cleverness, artistic gifts and industry, however, have carried France far in the past.

France is primarily an agricultural country and is unusually independent of outside sources for such products. Her climate and soil are well adapted to diversified agriculture. The northern third of the country is devoted mainly to manufacturing industries, though farming is important; the big central part has a combination of wheat and other grain lands, vineyards and forests; while the Mediterranean climate of the southern coast is favorable to the production of the vine and the olive.

From an industrial point of view France is an importer of raw materials and an exporter of highly finished products and luxuries. Of the chief manufacturing materials she now has a sufficient supply of iron ore, and her chemical industry is well developed. She must, however, import coal, petroleum, manganese, copper, tungsten, rubber, lumber, wool, cotton, and oleaginous raw materials.

As to the future, it would seem that France's industrial progress depends to a considerable extent upon her ability to develop mass production. She must turn her attention more and more to the standardization of products in order to obtain maximum output and wider markets. Exports of other products than luxuries must be developed. Imports of raw materials can be drawn more and more from French colonies, if these are developed, though France will have to pay the colonies for the materials furnished.

France is thrice blessed as to location, soil and climate; she has an unusually resourceful and ingenious people. At present she is staggering under an almost unsupportable burden of expenditures. She has not set herself resolutely to reduce her military establishment and she has not as yet apparently realized how important to her own material welfare is the restoration of a prosperous Central Europe. When she does there will be hope for her financial future.

SAMUEL MACCLINTOCK

WASHINGTON, D.C.